



ONTARIO ENERGY BOARD

STAFF SUBMISSION

**Application for Service Area Amendment
Orangeville Hydro Limited
Board File Number EB-2012-0181**

September 20, 2012

1. INTRODUCTION

Orangeville Hydro Limited (“OHL”) filed an application with the Ontario Energy Board on March 30, 2012, under section 74 of the *Ontario Energy Board Act, 1998* to amend Schedule 1 of its service area under electricity distribution licence ED-2002-0500. To complete its application OHL filed supplementary information on May 10, 2012.

The purpose of this document is to provide the Board with the submissions of Board staff after its review of the evidence filed in this proceeding.

2. THE APPLICATION

OHL filed an application with the Board under section 74 of the Act for an order of the Board to amend OHL’s licensed service area in Schedule 1 of its electricity distribution licence ED-2002-0500. The proposed service area amendment (“SAA”), if granted will expand OHL’s service area to include certain lands owned by Thomasfield Homes Ltd. (“Thomasfield”). The subject lands are located in the former Village of Grand Valley and currently vacant farmland but designated for residential development. OHL wishes to supply and provide electricity distribution services to a proposed residential development, known as Mayberry Hills Subdivision, which is expected to have 154 lots. The subject lands are within Hydro One Networks Inc.’s (“HONI”) licensed service area. By letter filed with the Board on June 5, 2012, HONI advised that it is contesting the application.

A letter from Thomasfield filed with the application indicates that the developer supports OHL’s SAA application. A letter from the Corporation of the Township of East Luther Grand Valley supporting OHL’s application was also filed with the application.

On August 24, 2012, in accordance with Procedural Order No 3, OHL filed amended evidence based on a revised request from the developer to connect 114 lots.

3. CRITERIA FOR ASSESSING SERVICE AREA AMENDMENT APPLICATIONS

Board staff understands that in assessing service area amendment applications, the Board is guided by the principles articulated in the Board’s decision with reasons in RP-

2003-0044 combined service area amendments (the “RP-2003-0044 Decision”) and reflected in the Board’s Filing Requirements for SAAs.

4. BOARD STAFF’S SUBMISSION

4.1 OHL’S GROUNDS FOR THE SAA

In its application OHL states that that the proposed SAA should be granted to OHL based on OHL’s submission that:

- a. the developer’s strong preference that OHL service the development;
- b. the fact that OHL is also an incumbent distributor given that a small portion of the development is in OHL’S service territory; and
- c. OHL’s connection proposal being better than or comparable to HONI’s in terms of economic efficiency, system planning, safety and reliability of service and the favourable customer impact in terms of rates.

Board staff will address OHL’s position with respect to the customer’s preference and OHL’s connection proposal later in this submission.

In terms of OHL’s statement that it is also an incumbent distributor, Board staff notes that as per OHL’s response to Board staff IR #1 and HONI’s IR #1, this small partial lot known as lot 8, block 6 does not have any houses or electrical service. In Board staff’s view the fact that this portion of the development is in OHL’s service territory should not be considered a determining factor for the purpose of assessing the subject SAA.

4.2 SYSTEM PLANNING

The land that is the subject of this service area amendment is vacant farmland that is located in and adjacent to OHL’s service area in the former Village of Grand Valley. Both OHL and HONI have well developed distribution facilities adjacent to the proposed amendment area. The evidence indicates that OHL has an existing 7.2kV distribution line that is adequate to supply the development and future growth in the area. HONI also has an existing overhead 7.2kV line that crosses over the development property. HONI can connect the development from a feed off an existing pole and does not require any system expansion. OHL will need to extend its distribution system by one pole span along the south side of Mill Street in Grand Valley. Both OHL’s and HONI’s

distribution lines run from Grand Valley Distribution Station, which, as stated by HONI in its response to Board staff IR # 4a, can provide sufficient capacity to supply the new load and accommodate future load growth. Board staff therefore submits that both distributors are in a relatively equal position to serve the proposed development from a system planning perspective.

4.3 RELATIVE DENSITY OF DISTRIBUTION SYSTEMS

In the RP-2003-0044 Decision, the Board stated that in addressing economic efficiency, among other things, the applicants should demonstrate that the proposed amendment does not reduce economies of contiguity, density and scale, and preferably enhances these economies.

The evidence indicates that OHL's distribution system adjacent to the proposed amendment area is significantly denser than HONI's distribution system and the characteristics of customers served by OHL in the neighbouring area are similar to the characteristics of the future residential customers in the proposed development. In its reply to Board staff IR # 2, HONI stated that it is currently serving low-density customers in the area adjacent to the proposed development and indicates that the proposed development will be classified as Residential R1 which is the rate class in a Medium Density Zone.

4.4 CONNECTION COST

In the RP-2003-0044 Decision, the Board stated "...Economic efficiency is a primary consideration in assessing a service area amendment application... Where new assets must be developed to effect the connection, a comparison of the costs associated with such development will inform the assessment of economic efficiency. "

To assess economic efficiency, the Board has to review and understand projected costs associated with expansion of the distribution system in order to connect the development by the competing distributors as well as the projected revenues for distribution services provided by the expanded distribution facilities. It is expected that both distributors would submit with their evidence their respective economic evaluations based on estimated costs and forecasted revenues based on the same basic assumptions in order to provide an accurate "apples-to-apples" comparison for the

Board to consider. Evidence indicates that OHL and HONI are not using the same assumptions to calculate projected revenues for distribution services in the proposed development. OHL based its economic evaluation on an average monthly consumption of 700 kWh per customer which, is in line with OHL statistics presented in the 2011 Yearbook for Distributors. OHL noted in Schedule A of its offer to connect that average consumption was based on the agreed upon estimated usage per residential unit. HONI estimated an average monthly consumption to be more than 50% higher than that of OHL, i.e. 1,069 kWh per customer, stating in its response to Board staff IR #3b that the houses in the development are expected to be equipped with electric heating, electrical water heating and air conditioning. In Board staff's view it is unlikely that the developer would equip the new houses with electric heating and water heating if there is natural gas available in the vicinity. It is also not clear to Board staff why OHL would choose to underestimate its consumption knowing that the developer is planning to equip the new houses with electric heating and electric water heating. To clarify this matter Thomasfield Homes Ltd. is invited to file a letter identifying what type of heating and water heating is planned for the houses in the proposed development.

Board staff also notes that in OHL's economic evaluation it assumed that customer connections are staggered over five years, while HONI's economic evaluation filed in response to Board staff IR #3 assumed that all customers are connected in the first year. In order to make OHL's and HONI's projections comparable, in its IR # 3 Board staff requested HONI to recalculate its economic evaluation based on the assumptions used by OHL. On September 19, 2012, HONI filed its revised high level summaries of economic evaluation based on three different scenarios for average monthly consumption, i.e. 1,069 kWh, 969 kWh, which is HONI's average monthly consumption for the R1 rate class, and 700 kWh as used by OHL, and, on the assumption that customer connections are staggered over five years. In its response HONI stated that it disagrees that OHL's average monthly consumption should be used in the economic evaluation calculations for the reasons mentioned in the paragraph above.

As the evidence filed in this proceeding does not allow for a clear "apples-to-apples" comparison of the connection costs and economic evaluations prepared by both distributors, Board staff has summarized the customer capital contributions calculated by both distributors as well as other costs submitted by the distributors in Table 1 below. To address HONI's concerns with respect to an average monthly consumption all three scenarios are included in the table.

Table 1

Mayberry Hills Subdivision				
	OHL	HONI (Option B)		
		700 kWh	969 kWh	1,069 kWh
Customer Contribution Required for the Connection	(\$109,331) (As per Offer to Connect)	\$87,855	\$10,728	(\$15,437)
Contestable Work	Included in Offer to Connect	\$187,681 (as per HONI's evidence , page 8)		
Secondary Splices for 114 lots	\$28,500	\$28,500		
Civil works	Included in Offer to Connect	\$122,464 (as per HONI's evidence, page 8)		
Cost for relocation of existing line	\$175,854	Included in estimates above		
Internal Loop	\$40,000	Included in Offer to Connect		
Total Cost to Customer	\$135,023	\$426,500	\$349,373	\$323,208

Board staff notes that although the Board in its Decision on HONI's motion stated that the cost for relocation of an existing line should not be included in the connection costs comparison, Board staff has included these line relocation cost as well as the internal loop feed costs in Table 1 to demonstrate that even if all costs to connect the new development to the distribution system, regardless of who is paying those costs, are taken in consideration, OHL's total connection costs are significantly lower than HONI's.

4.5 RELIABILITY AND QUALITY OF SERVICE

The evidence indicates that both OHL and HONI would respond to the emergencies from their respective operation centers, both of which are located in the Town of Orangeville. Therefore the response time would be comparable and either distributor would likely provide a similar level of quality of service. However, OHL submits that it designates the subject area as urban which requires 60 minute emergency response time while HONI designates the subject area as rural, which allows a maximum of 120 minute emergency response time, and therefore could potentially cause longer power interruptions during emergency situations if HONI supplies the development. To address OHL's concern with respect to HONI's emergency response time, HONI in its evidence indicated that in urban areas, such as the subject development, its response

time is better than average and that in this area HONI has responded to 90% of power interruptions in 63 minutes.

Board staff submits that either distributor would provide a similar level of reliability and quality of service. However, it is Board staff's position that service by OHL can be expected to contribute in a positive way to the quality of service due to close proximity of the proposed amendment area to the dense urban area of Grand Valley that is in OHL's service territory.

4.6 DISTRIBUTION RATES AND CUSTOMER PREFERENCE

OHL's evidence indicates that prospective customers will be subject to lower distribution rates if serviced by OHL. According to the rate comparison provided on Page 13 of OHL's application, distribution charges for a 600 kWh OHL residential customer are \$53.47 as compared to \$81.15 for a HONI customer.

A letter from Thomasfield, filed with the application, indicates that the developer prefers OHL as the distributor to supply the subject residential development. The developer stated that future customers will benefit from having one bill for electricity, water and sewer, which are managed by OHL, and that customer confusion will be avoided if OHL services the development.

With respect to the weight to be given to customer preference when assessing SAA applications, in the RP-2003-0044 Decision, the Board stated "... the Board finds that customer preference is an important, but not overriding consideration when assessing the merits of an application for a service area amendment. Customer choice may become a determining factor where competing offers to the customer(s) are comparable in terms of economic efficiency, system planning and safety and reliability, demonstrably neutral in terms of price impacts on customers of the incumbent and applicant distributor, and where stranding issues are addressed."

Based on the evidence, Board staff's view is that OHL's ability to serve the development is more economically efficient having regard to costs necessary to effect the connection, however it is comparable to HONI's with respect to system planning, safety and reliability. Therefore, Board staff submits that the rate impact on the prospective customers and the developer's preference should be a consideration.

5. SUMMARY OF BOARD STAFF'S POSITION

Based on the evidence, Board staff's view is that OHL has been able to demonstrate that it can provide connection of the development at a cost to the customer which is significantly lower than HONI's cost. The evidence also indicates that of the two existing distribution systems adjacent to the proposed amendment area, OHL's distribution system is denser than that of HONI.

Board staff submits that since both distributors are in a relatively equal position to serve the proposed residential development from a system planning perspective and from a reliability and quality of service perspective, considerable weight should be given to the costs necessary to effect the connection, the capital contribution the customer must pay and the relative density of the systems in proximity to the proposed development.

All of which is respectfully submitted